

## **TV PROGRAMMING COST ANALYSIS (Continued)**

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In premium TV households—often the most desirable demographically—the competition for viewers is even fiercer and is growing. Not only do basic networks compete with services such as HBO, Showtime, Starz! and Disney but, increasingly, these premium services are being "multiplexed". There are now, for instance, seven "screens" of HBO and another three of Cinemax. Added together, in technologically advanced systems, there can be nearly 30 premium TV screens of 24-hour movies and entertainment programming available.

A new generation of basic, premium and pay-per-view programming is being created for the digital cable set top boxes being rolled out across the country. In addition to a dozen or more digital "basic" channels and the aforementioned 30 multiplexed premium screens, the technology allows for 25 to 50 channels of PPV movies, sports, events and time-shifted services such as Your Choice TV.

The cost of acquiring competitive programming by basic cable networks has tracked steadily upward, with benchmark prices for top product rising from the \$100,000-400,000 per episode range in the late 1980s upwards to the \$400,000-600,000 range in the mid 1990s and then into the \$600,000-800,000 per episode range over the last 24 months. The chart below tracks some representative cable network licensing deal estimates.

## TV PROGRAMMING COST ANALYSIS (Continued)

### REPRESENTATIVE OFF NETWORK LICENSING DEALS BY BASIC CABLE NETWORKS

Network	Program	Year	Est. price per episode \$000
TBS/TNT	ER*	1996	800
USA	Walker, Texas Ranger	1996	725
LIFE	Ellen	1996	600
FX	The X-Files	1996	600
LIFE	Chicago Hope	1996	475
LIFE	Homicide	1996	425
FX	NYPD Blue	1995	400
TNT	Lois & Clark	1995	275
USA	New York Undercover	1995	275
FAM	Evening Shade	1994	300
LIFE	Designing Women	1994	100
BRAVO	Brooklyn Bridge	1994	75
BET	Roc	1994	50
USA	Wings	1993	565
TBS	Head of the Class	1993	80
LIFE	Sisters	1993	55
BRAVO	Twin Peaks	1993	40
USA	Major Dad	1992	575
FAM	Life Goes On	1992	65
LIFE	Anything But Love	1992	65
LIFE	Unsolved Mysteries	1991	180
LIFE	China Beach	1991	125
LIFE	thirysomething	1991	60
LIFE	My Two Dads	1990	210
FAM	Beauty & the Beast	1990	100
FAM	Young Riders	1990	60
USA	L.A. Law	1989	200
LIFE	Moonlighting	1989	160
FAM	Scarecrow & Mrs. King	1989	100
USA	Murder She Wrote	1988	475
LIFE	Spencer: For Hire	1988	140
LIFE	Molly Dodd	1988	100
USA	Miami Vice	1987	285
FAM	Remington Steele	1987	140
USA	Mike Hammer	1987	140
FAM	Crazy Like A Fox	1987	140
LIFE	Cagney & Lacey	1987	105

\*For a reported \$1.2 mil./episode cable and syndication (cable component estimated at \$800K/episode)

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## TV PROGRAMMING COST ANALYSIS (Continued)

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The combination of competitive market forces--both externally from broadcasters and intramurally between cable networks--coupled with the continual pressure on the cost to create and license entertainment programming is expected to continue driving programming costs at the basic cable network level.

Basic cable network program expenses have increased \$3.5 bil. between 1986 and 1997, from \$482 million to \$4.031 billion, an eight-fold increase.

### BASIC CABLE NETWORK PROGRAMMING BUDGETS

<u>Year</u>	<u>(mil.)</u>	<u>% chg.</u>
1986	\$482	----
1987	551	14.3%
1988	712	29.2%
1989	929	30.5%
1990	1,353	45.6%
1991	1,710	26.4%
1992	1,978	15.7%
1993	2,238	13.1%
1994	2,613	16.8%
1995	2,960	13.3%
1996	3,447	16.5%
1997	4,031	16.9%

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## **TV PROGRAMMING COST ANALYSIS (Continued)**

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### **CONCLUSION**

When it comes to the cost of TV programming, the last high water benchmark attained is usually the starting point for the next negotiation. Market forces drive the cost of entertainment—a relative scarcity of top talent coupled with a growing proliferation of entertainment distribution systems and venues—and leads to constant upward pressure on prices at the wholesale level. These continuing increases eventually get passed on to the consumer in the form of higher direct entertainment prices for tickets and subscription services, and higher indirect costs—advertising, marketing and promotion—built into virtually all goods and services.

## **QUALIFICATIONS**

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### **KAGAN MEDIA APPRAISALS, INC.**

***Kagan Media Appraisals Inc.*** specializes in the analysis, valuation and appraisal of U.S. and international media and communications properties, companies and markets. Over the past 28 years, Mr. Kagan and his staff have appraised over \$30 billion worth of media properties on contract assignment as well as serving in an expert witness capacity in numerous matters of litigation in the media industry. In addition, the Kagan Newsletters have analyzed public and private companies, on at least a quarterly basis, totaling hundreds of billions of dollars. Mr. Kagan and his analyst team have, for the past 25 years conducted seminars for corporate executives and public officials on communications and media topics.

The following summarizes the professional credentials of the key members of the team involved in the preparation of this report:

### **PROFESSIONAL CREDENTIALS**

Paul F. Kagan is a financial analyst, consultant, investment manager and publisher of appraisal commentaries and analytical newsletters serving the communications and entertainment industries.

He has been engaged in this business since February 1969, when he formed Paul Kagan Associates, Inc., in Rockville Centre, New York. Offices were moved to Carmel, CA, in 1978. The Kagan group of companies includes Paul Kagan Associates, Inc. (publishing), Kagan Seminars Inc. (seminars), Kagan Capital Management, Inc. (investment management), Kagan Media Appraisals, Inc. (U.S. media consulting and valuations) and Kagan World Media, Inc. (research services, seminars, consulting and valuations round the world outside the U.S.).

Prior to forming PKA, Paul Kagan was a security analyst specializing in broadcasting and cable TV for E.F. Hutton & Co. in New York. He has contributed numerous articles on investments and finance to Barron's, the Dow Jones financial weekly. Earlier, he was employed in executive positions with CBS, Inc., and WOR-FM in New York.

Mr. Kagan is a fellow of the Financial Analysts Federation, a member of the New York Society of Security Analysts and an associate member of the Broadcast Financial Management Association.

PKA publishes over 40 newsletters on various communications and media disciplines, including MOTION PICTURE INVESTOR, TV PROGRAM INVESTOR AND INTERACTIVE MULTIMEDIA INVESTOR. Paul Kagan was the first to publish a continuing strategic investment analysis of the U.S. cable TV industry when he introduced CABLE TV INVESTOR in November 1969.

For more than 28 years, Mr. Kagan and his staff have appraised over \$28 billion worth of media properties on contract assignment. In addition, the Kagan Newsletters have analyzed public and private companies, on at least a quarterly basis over a number of years, totaling hundreds of billions of dollars.

Mr. Kagan is a graduate of Hunter College of the City University of New York, where he majored in communications. He also studied accounting at the New York University Graduate School of Business Administration.

Mr. Kagan and his analyst team have, for the past 25 years, conducted seminars for corporate executives and public officials on communications and media topics.

## QUALIFICATIONS (Continued)

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**Larry Gerbrandt** is a Senior Vice President of Paul Kagan Associates, Inc. and is responsible for the company's entertainment industry research and special report division. Mr. Gerbrandt has been tracking the development of cable program networks since 1984. He is Senior Analyst on 12 of the 33 Kagan newsletters, including *CABLE TV PROGRAMMING*, *CABLE TV ADVERTISING*, *CABLE NETWORK INVESTOR*, *TV PROGRAM INVESTOR* and *THE PAY TV NEWSLETTER*. In addition, Mr. Gerbrandt serves as a consultant to Kagan Media Appraisals, Inc., where he specializes in the appraisal of cable networks and programming libraries, as well as acting as a strategic consultant in these areas. Mr. Gerbrandt's broad knowledge of television, film and cable programming trends has made him a frequently quoted source in such national publications as *Time Magazine*, *Newsweek*, *The New York Times* and *The Wall Street Journal*, as well as being sought after for appearances on such national TV shows as *Cable News Network*, *Financial News Network* and ABC's *Good Morning America*. Mr. Gerbrandt's other duties include moderating at the nationally and internationally renown Kagan Seminars, Inc. in seminars covering such topics as pay-per-view, cable programming trends, digital television, and motion picture and television program finance.

Prior to joining PKA, Mr. Gerbrandt held executive positions with the cable division of Orion Broadcast Group and Brimstone Films, a Dallas, TX-based TV and film production company he helped found in 1980. While at Brimstone, Mr. Gerbrandt was an award-winning producer of television commercials, industrial films, museum documentaries and live television events. Mr. Gerbrandt attended Colorado State University and holds a Bachelor of Arts degree in Business Administration from Loretto Heights College in Denver, Colorado.

**Derek C. W. Baine** is Director, Market Valuations/Analyst at Paul Kagan Associates, Inc., and a primary contributor to various newsletters covering the programming sector including *CABLE NETWORK INVESTOR*, *THE DBS REPORT*, *NEWSPAPER INVESTOR*, *INTERACTIVE MULTIMEDIA INVESTOR*, *MEDIA MERGERS AND ACQUISITIONS*, *MOTION PICTURE INVESTOR*, *TV PROGRAM INVESTOR*, and *VIDEO INVESTOR*. In addition, Mr. Baine serves as a consultant to Kagan Media Appraisals, Inc. Mr. Baine's knowledge of the value of film, television and video libraries and trends affecting these companies has made him a frequently quoted source in such national publications as *The Wall Street Journal*, *Time Magazine*, *Newsweek*, and *Video Store Magazine*.

Prior to joining Paul Kagan Associates in February of 1994, Mr. Baine held the position of Senior Accountant with Hillside Coffee of California where he was responsible for budgeting, forecasting and analysis of economic and competitive trends. Mr. Baine has more than ten years experience in Accounting and Finance. Prior to his employment at Hillside, Mr. Baine served as a consultant for Recycling By Nature.

**John Mansell, Jr., J.D.**, began his association with PKA in 1975. He is Senior Analyst for *WIRELESS CABLE INVESTOR*, the only continuing publication dedicated to the financial aspects of wireless cable for the past 24 years. Mr. Mansell is also Senior Analyst on *MEDIA SPORTS BUSINESS*, *PRIVATE CABLE INVESTOR*, *CABLE TV TECHNOLOGY*, and *CABLE TV LAW REPORTER*.

In addition, Mr. Mansell is organizer and moderator of several Kagan seminars, including Telecom Law Reform. Mr. Mansell holds a bachelor's degree in economics from the University of Michigan and a J.D. from the Thomas M. Cooley Law School.

## QUALIFICATIONS (Continued)

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**Bill Marchetti** is an analyst at Paul Kagan Associates, Inc. and a major contributor to *THE PAY TV NEWSLETTER*, *CABLE TV ADVERTISING*, *CABLE TV PROGRAMMING*, *MARKETING NEW MEDIA* and *CABLE NETWORK INVESTOR* newsletters.

Mr. Marchetti also contributes to PKA special reports in the areas of cable advertising and European cable programming. He holds a bachelor's degree in journalism from Northern Illinois University.

**Jeffrey A. Flathers** is an associate analyst at Paul Kagan Associates, Inc. and is a contributor to various financial newsletters including *MOTION PICTURE INVESTOR*, *VIDEO INVESTOR*, *CABLE NETWORK INVESTOR*, *TV PROGRAM INVESTOR*, *TV PROGRAM STATS* and *MEDIA MERGERS & ACQUISITIONS*. In addition, Mr. Flathers serves as a consultant to Kagan Media Appraisals. Commenting on economic trends in the entertainment sector, Mr. Flathers has frequently been quoted in such national publications as *USA Today*, *The Washington Post*, *TV Guide*, *Broadcast & Cable* and *Electronic Media*.

Prior to joining Paul Kagan Associates in 1995, Mr. Flathers served a tour as a military intelligence analyst and linguist in the U.S. Army with an emphasis on the Pacific Theater. He holds a Master of International Management degree from the American Graduate School of International Management in Glendale, AZ and a Bachelor of Arts in Spanish from Carleton College in Northfield, MN.

## **ATTACHMENTS**

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## ATHLETES WHO EARNED MOST IN 1996

The 40 athletes who earned the most in 1996, as estimated by Forbes in its Dec. 16 issue. The salary/winnings figure includes salary, prize money and earned incentive bonuses. Endorsements include licensing money and appearance and exhibition fees. Income from side businesses and equity partnerships is not counted. The magazine does not say how it treats deferred compensation. Figures are in millions.


Rank	Athlete	Sport	Salary	Endorsements	Total
1	Mike Tyson	Boxing	\$75.0	\$0.0	\$75.0
2	Michael Jordan	Basketball	12.6	40.0	52.6
3	Michael Schumacher	Auto Racing	25.0	8.0	33.0
4	Shaquille O'Neal	Basketball	7.4	17.0	24.4
5	Emmitt Smith	Football	13.0	3.5	16.5
6	Evander Holyfield	Boxing	15.0	0.5	15.5
7	Andre Agassi	Tennis	2.2	13.0	15.2
8	Arnold Palmer	Golf	0.1	15.0	15.1
9	Dennis Rodman	Basketball	3.9	9.0	12.9
10	Patrick Ewing	Basketball	10.9	1.5	12.4
11	Cal Ripken Jr.	Baseball	6.0	6.0	12.0
12	Roy Jones Jr.	Boxing	12.0	0.0	12.0
13	Dan Marino	Football	9.2	2.5	11.7
14	Wayne Gretzky	Ice Hockey	6.0	5.5	11.5
15	Riddik Bowe	Boxing	11.5	0.0	11.5
16	Pete Sampras	Tennis	3.3	8.0	11.3
17	Oscar De La Hoya	Boxing	10.8	0.5	11.3
18	Grant Hill	Basketball	4.3	6.5	10.8
19	Ken Griffey Jr.	Baseball	8.0	2.8	10.8
20	Dale Earnhardt	Auto Racing	2.5	8.0	10.5
21	David Robinson	Basketball	7.4	2.0	9.4
22	Hakeem Olajuwon	Basketball	6.8	2.5	9.3
23	Clyde Drexler	Basketball	8.9	0.3	9.2
24	Michael Chang	Tennis	2.5	6.5	9.0
25	Julio Cesar Chavez	Boxing	9.0	0.0	9.0
26	Tiger Woods	Golf	0.8	8.0	8.8
27	John Elway	Football	6.8	2.0	8.8
28	Neil O'Donnell	Football	8.5	0.3	8.8
29	Steve Young	Football	4.5	4.0	8.5
30	Frank Thomas	Baseball	7.2	1.2	8.4
31	Mario Lemieux	Ice Hockey	7.5	0.8	8.3
32	Barry Bonds	Baseball	8.0	0.3	8.3
33	Jack Nicklaus	Golf	0.4	7.8	8.2
34	Damon Hill	Auto Racing	7.5	0.7	8.2
35	Troy Aikman	Football	4.9	3.2	8.1
36	George Foreman	Boxing	3.0	5.0	8.0
37	Charles Barkley	Basketball	4.5	3.5	8.0
38	Greg Norman	Golf	0.9	7.0	7.9
39	Cecil Fielder	Baseball	7.4	0.2	7.6
40	Gerhard Berger	Auto Racing	7.0	0.5	7.5

Source: Forbes, December 16, 1997

# Recent Franchise Sales



NFL	Team	Price
	Tampa Bay Buccaneers	\$192 Mil.
	St. Louis Rams (30%)	60
	Carolina Panthers	140
	Jacksonville Jaguars	140
	Baltimore Ravens (57%)	73



NHL	Team	Price
	Winnipeg Jets	\$ 68 Mil.
	Colorado Avalanche	75
	Dallas Stars	84
	Philadelphia Flyers	100
	Los Angeles Kings	119
	Toronto Maple Leafs (12.5%)	16
	Florida Panthers (49%)	77
	New York Islanders	150
	New York Rangers	180



NBA	Team	Price
	Minnesota Timberwolves (5%)	\$ 4 Mil.
	Golden State Warriors	115
	Toronto Raptors	125
	Vancouver Grizzlies	125
	Philadelphia 76ers	125
	Dallas Mavericks (67%)	40
	San Antonio Spurs (31.8%)	220
	New York Knicks	

MLB	Team	Price
	California Angels (25%)	\$ 30 Mil.
	San Diego Padres	80
	Oakland A's	85
	Pittsburgh Pirates	85
	Tampa Bay Devil Rays	130
	Arizona Diamondbacks	130
	St. Louis Cardinals	150
	Los Angeles Dodgers	350

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